

## The Relationship Between Audit Client Satisfaction and Audit Quality Attributes: Case of Malaysian Listed Companies

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### ABSTRACT

This study examines client satisfaction over audit services as perceived by the company management and its relationships with audit quality attributes. Comparisons of audit client satisfaction are made between Big 4 and non-Big 4 firms on the audit of Bursa Malaysia listed companies. The study employs the Behn *et al.* (1997) research instrument consisting of fifteen item-questionnaires of audit quality attributes and two items of client satisfaction of audit performance at the firm and team levels. The questionnaire solicits perceptions of financial controllers over the quality attributes of auditors and their level of satisfactions with audit services. Results show that quality attributes of audit firm are ranked higher than quality attributes of audit team. There is no significant difference in client satisfaction over the performance of audit between the Big 4 and non-Big 4. Further analysis shows that client satisfaction is significantly related to four audit firm quality attributes, i.e. prior experience, responsiveness, independence, and commitment of audit firm to quality audit. Results also show that client satisfaction is significantly related to certain quality attributes of audit team, i.e. experience with client, independence, involvement in the engagement, conduct of field works, and ethical and knowledgeable of accounting and auditing standards.

**Keywords:** Audit client satisfaction, audit quality attributes, listed Malaysia companies

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Any remaining errors or omissions rest solely with the author(s) of this paper.

## INTRODUCTION

For a number of years researchers have been convinced that the quality of audit services varies according to the size of audit firms. Consequently, the quality of audit is often operationalised by the size of audit firms (Hashanah & Takiah 2003; Che Ahmad & Shamharir 2002). Previous studies use big international audit firms to represent high quality audit and small audit firms to represent low quality audit, hence, the use of the dichotomy of Big 8/non-Big 8, Big 6/non-Big 6, Big 5/non-Big 5, and Big 4/non-Big 4 (e.g. Francis 1984; Francis & Stokes 1986; Ferguson & Stokes 2002; Mohd-Mohid & Takiah 2004). Big audit firms are viewed as providing higher quality audit based on their perceived competence and independence (DeAngelo 1981). Big 8 (then) auditors are perceived to be providing higher quality audit (as in the US) in order to protect the firm reputation and to avoid costly litigation (e.g. DeAngelo 1981). It is argued that big audit firms have more resources to invest in better technology and training (Craswell, Francis & Taylor 1995). As a result, they are able to develop their expertise and reputation among clients. Big audit firms are expected to sustain the quality of audit services in order to maintain reputation and audit market Behn *et al.* 1997).

With the recent collapse of Enron involving the misconduct of one of the Big 4, Arthur Andersen & Co., the argument for audits for big audit firms as synonymous with quality audit has become questionable. Khurana and Raman (2004a) provide evidence that there is no significant difference in the quality of audit between Big 4 and non-Big 4 audit firms in the Association of South East Asian Nations (ASEAN) countries where the audit environment is less litigious. The study suggests that in the emerging market such as in ASEAN countries, Big 4 audit firms are not living up to their brand name reputation and that, by implication, the quality of Big 4 audits in these countries is not any higher than the quality of non-Big 4 audits (Khurana & Raman 2004a). It is argued that in countries with generally less litigious environments than that in litigious environments (Saudagaran & Diga 2000). Thus, the absence of litigation risk may weaken the incentives of Big 4 auditors to provide higher quality audits (Khurana & Raman 2004a). Khurana and Raman (2004b) argue that in such environments the Big 4 brand name reputation becomes an important professional asset in retaining current audit clients, attracting new major clients, and in retaining or recruiting outstanding individuals as employees. However, in that environment, auditors have no incentive to provide quality differentiated audit (Khurana & Raman 2004a). Consistent with the Big 4 brand name eminence, therefore, reputation concerns could provide sufficient incentives for Big 4 auditors to provide quality audits in the less litigious ASEAN environment.

It is a concern, therefore, whether companies audited by the Big 4 receive better quality audit services than those audited by the non-Big 4. If the

hypothesis that the quality of Big 4 audit services is higher than that of the non-Big 4 does not hold in ASEAN countries, then the use of size of audit firm as a proxy of audit quality for research in this region may not be justifiable. This study attempts to examine whether Big 4 audit firms provide better quality audit than the non-Big 4 on the basis of client satisfaction with audit performance. Although Khurana and Raman (2004a) provide evidence of the absence of quality differentiated-audit in ASEAN countries based on the published data in the financial statements. It would be necessary, therefore, to seek views of auditors' clients, the very party who gets access to auditors' review reports and is involved in decisions on the selection of auditors. Hence, this study attempts to investigate quality-differentiated audit of audit firms based on the perception of the company management. In an earlier study in Malaysia, perceptions on audit quality attributes has been solicited from audit partners, audit committee and investment analysts but not from the client management (Nahariah *et al.* 2005).

This study adapts the instrument used by Behn *et al.* (1997) to solicit audit client views on several dimensions of audit quality attributes. Behn *et al.* (1997) use the instrument to identify determinants of audit client satisfaction among clients of Big 6 firms. The study identifies the quality attributes that contribute to the overall satisfaction of audit client over audit services of the Big 6. However, the Behn *et al.* (1997) study does not make comparisons between the client satisfactions on audit services of the Big 6 and those of the non-Big 6. Also, the Behn *et al.* (1997) study does not differentiate quality attributes that may contribute to audit client satisfaction with the performance of audit team from those of audit firm. Such differentiation is necessary because audit firm brand name reputation, and auditors' specialisation and independence are separate dimensions of audit quality (Craswell, Francis & Taylor 1995; DeFond 1992). Unlike Behn *et al.* (1997), this study offers the following improvements. Firstly, this study compares audit client satisfaction over audit performance of the Big 4 and non-Big 4. Secondly, this study analyses separately the relationships between client satisfaction over audit performance and audit quality attributes relating to audit firms and those relating to audit team. This approach is also in line with that presented in International Standards of Auditing (ISA) 220 on Quality Control for Audit Work (MIA 1998). The objective is to identify independently the significance of each quality attributes in determining the client satisfaction over audit services at both the firm and team levels. Results are expected to provide an insight into the clients' perceptions of any audit quality differentiation between the Big 4 and non-Big 4.

The following section discusses related prior studies and hypothesis development. This is followed by research method in section 3 and results of data analysis in section 4. Section 5 concludes the paper.

## **LITERATURE REVIEW AND DEVELOPMENT OF HYPOTHESES**

### **Audit Quality**

The issue of audit quality is not new. It has been subject to research since early 1980s in different countries such as the US (e.g. DeAngelo 1981; Francis 1984; Francis & Simon 1986), Australia (e.g. Craswell, Francis & Taylor 1995), UK (e.g. Che Ahmad & Houghton 1996), Hong Kong (e.g. Gul 1999), and Malaysia (e.g. Mohd-Mohid & Takiah 2004). In a survey conducted among members of the Malaysian Institute of Accountants (MIA) in 1990, audit quality is cited by respondents as one of the critical issues to the profession (Teoh 1990). However, the study did not identify factors contributing to the problem or specifying the desirable attributes of audit quality.

Audit quality is often associated with the quality of financial reporting. Evidence shows voluntary differential audit quality exists along a number of dimensions such as firm size, industry specialization, office characteristics, and cross-country differences in legal system and auditor liability exposure (Francis 2004). A study in Malaysia shows that size of audit firms has a significant positive relationship with the quality of financial reporting (e.g. Lily Marlina & Takiah 2003). Financial statements issued to shareholders by board of directors are required to be attested to by external auditors. Such an attestation by an external party, independent of the preparers of the statements, gives the financial statements a measure of credibility. Financial statements are expected to be free of material misstatements if auditors provide quality audits. This is consistent with DeAngelo (1981) who defines audit quality as the probability that a material misstatement in the financial statements can be detected and reported by auditors. It implies the significance of auditors' competency and independence in determining the quality of audit. Both elements of audit quality, independence and competency, relate to personnel characteristics of auditors.

With the above-mentioned characteristics, auditors are able to perform their role in reducing the information gap between the management and stakeholders in order to provide an assurance that financial statements in general are free from material misstatements. The external audit of high quality serves a corporate governance role in enhancing the quality of reporting. It enhances the credibility of financial statements and users' confidence in the statements. The importance of high quality audit in improving management controls and processes is recognised by Cadbury Committee (1992). Hence, it helps reduce the cost of capital by reducing the risk of information. Thus, a high quality external audit improves the monitoring and controlling mechanism of the company (Khurana & Raman 2004a). Being a monitoring mechanism, an audit is used by companies to reduce the agency cost being borne by financiers and shareholders (Jensen & Meckling 1976; Watts & Zimmerman 1983). It is concluded that an audit reduces the

positive bias of net earnings and net assets before the audit (Kinney and Martin 1994). Consequently, an audit improves the distribution of resources in the capital market through effective decision making processes.

## Measurement of Audit Quality

Despite the significant role of quality audit in enhancing quality corporate financial reporting, consensus has not been reached on how audit quality should be measured. It is often perceived that an unqualified audit opinion describes the quality of audited financial statements implying that financial statements are free from material misstatements. Some observable proxies are used for financial statements credibility expected from high quality audit. These proxies include earnings response coefficient (Teoh & Wong 1993) and magnitude of the discretionary accrual components of reported earnings (Becker *et al.* 1998; Francis *et al.* 1999). Catanach and Walker (1999) see audit quality as a function of auditor performance. They argue that audit quality is affected by the ability and professional conduct of auditors. Hence, auditors' failure to detect material misstatements or failure to report the misstatement would reflect poor audit quality. However, the quality of the audit work performed by auditors is not assessable for scrutiny by financial statements users because users are not privy to the working papers of the auditors nor can they observe what the auditors actually did. The question of what constitutes an audit quality remains unanswered. Therefore, some other indicators of audit quality have often been adapted to proxy for quality.

DeAngelo (1981) in her seminal work concludes that size of audit firm alone can be used as the proxy for quality. She suggests that the Big 8 (then) supply better quality audit compared to the non-Big 8. Big 8 audit firms demonstrate the ability to provide quality audit in two dimensions. The first dimension is the ability to detect misstatement and the second is the reporting of the misstatement (DeAngelo 1981). According to DeAngelo (1981), auditors' ability to detect misstatement is a function of technical competence whereas the willingness to report the misstatement is a reflection of the auditors' independence. A crucial attribute of audit quality is therefore the exercise of professional judgments by auditors in an independent manner because it essentially enhances the informational value of auditing to third parties.

However, studies on quality differences between audit firms provide inconsistent results. For example, Jang and Lin (1993) find that information associated with a Big 8 firm is perceived to be more reliable. This is consistent with Morris and Strawser (1990) who find that banks receiving modified audit reports by Big 6 are more likely to be closed by regulators compared to banks receiving modified audit reports by non-Big 6 firms. These findings are inconsistent with earlier studies, which find no significant difference in the audit price of the Big 8

and the non-Big 8 (Simunic 1980). Also, no greater likelihood that smaller audit firms would issue inappropriate opinions. DeFond (1992) considers audit firm size, firm reputation, expertise and independence of the audit firm as “noisy” measures of audit quality if taken individually and suggest therefore that these factors should be combined as a better measure of audit quality.

Favere-Marchesi (2000) suggests that the legal environment in which external auditors carry out audits may affect audit quality. They attempt to address the issue of how laws and regulations in the ASEAN member countries affect audit quality via questionnaires sent to representatives of the Big 4 firms. Using the DeAngelo's (1981) definition of audit quality, the study finds existing laws and regulations provide different degrees of ex-ante and ex-post safeguards for audit quality and that audit quality in ASEAN member countries is therefore of varying levels.

### **Perceived Audit Quality**

In view of the mixed results from the literature as to the appropriate measure of audit quality, some studies seek the views of the company management, that is one of the stakeholders, as to what constitute audit quality so that audit can be of more value to them. For example, in responding to the United States Congress action to scrutinize the quality of external audits, Schroeder, Solomon and Vickey (1986) have conducted an exploratory study to investigate audit committee chairpersons' perception of the factors that influence the quality of external audits. In the study, auditors' insights into the audit quality perceptions are also elicited. Audit committee chairpersons' perceptions are sought for because of their role in external audit nomination/selection process, which provides them opportunities to obtain information in this regard (Schroeder *et al.* 1986). The study uses questionnaires containing 15 factors to be rated on 5-point audit quality scale. The factors relate to two aspects, the audit firm as an entity and the specific audit team assigned to the engagement. Eighty-one audit committee chairpersons of Fortune 500 companies and 41 Big 8 CPA-firm partners participated in the survey. Results show that audit-team factors, such as the level of partner/manager attention given to the audit, are perceived by audit committee chairpersons to have a greater effect on audit quality than such audit-firm factors as the relative significance of total professional fees paid to the audit firm, and that, with only a few exceptions, Big 8 CPA-firm partners are knowledgeable about such perceptions.

Further attempts to understand perceptions on the underlying components of audit quality are done through a survey on high-ranking auditors, preparers, and users (Carcello, Hermanson & McGrath 1992). The objective is to understand the perceptions of both users and preparers, which can be used by audit firms as a basis for improving their audit quality. The study uses Schroeder *et al.* (1986)

attributes of audit quality with some additional attributes to provide a more extensive examination of audit quality. Results show four important factors in determining audit quality which include audit team and firm experience with the client, industry expertise (especially within the audit team), responsiveness to client needs, and audit firm compliance with the generally accepted auditing standards (GAAS) (Carcello *et al.* 1992). However, the three groups evaluate audit quality differently. Audit partners emphasize more on sceptical attitude. Preparers place more importance on adherence to GAAS and auditors' responsiveness to clients' needs. On the other hand, users perceive adherence to GAAS and involvement of audit partners as more important.

Perceived audit quality may also be measured by evaluating client satisfactions with the performance of the auditors. Behn *et al.* (1997) relate the client overall satisfaction with external audit work to audit quality attributes based on the evaluation made by company controllers. The study finds that the client satisfaction is significantly related to certain audit quality attributes, which underlying components of audit quality include responsiveness to client needs, executive involvement, effectiveness and ongoing interaction with the audit committee, conduct of field works, industry expertise, and prior experience with the clients. Results indicate the important role of communication and relationships in promoting client satisfaction. From the study, it is found that the attributes of audit quality consistently recognized as critical are technical and industry expertise, responsiveness to client's need and interpersonal rapport with client personnel. However, different groups of financial statement users (i.e. shareholders, financial journalists, managing directors, and public accountants) assign significantly different values to the quality dimensions in external audit services (Warming-Rasmussen & Jensen 1998). Warming-Rasmussen & Jensen (1998) find that external users tend to perceive audit quality attributes as those attributes which inspire confidence in the auditor. The main dimensions that are of users' concerns are the aspects of moral and ethical. The Nahariah *et al.* (2005) shows that audit partners, audit committees and investment analysts perceive audit quality is influenced by auditors' knowledge in accounting and auditing, accounting and financial reporting, and industry as well as their compliance on ethical standards.

Based on the above discussion, it is concluded that audit quality is characterized by a number of quality attributes, which mainly relate to audit firm as an entity and specific to audit team assigned to an audit work (Schroeder *et al.* 1986). High quality audit would result in auditors producing timelier reporting (Idawati *et al.* 2004), facing fewer lawsuit cases (Francis 2004), spending audit time more efficiently, hence, charging higher audit fees (Gul 1999; Simunic 1980; Mohd-Mohid & Takiah 2004). Those studies conclude that audit fee is associated with audit quality. Higher audit fees are asserted to be the result of better audit quality (DeAngelo 1981; Francis 1984; Mohd-Mohid & Takiah 2004). Results of



past studies suggest that big audit firms meet the characteristics of high quality audit that are expected to satisfy the need of the clients. High quality audit is found to reduce earnings management by the company (Hirst 1994). Companies audited by big audit firms recorded lower amount of accounting accrual choices compared to that recorded by companies audited by non-big audit firms (Becker *et al.* 1998). Studies indicate that auditors from small audit firms allow the management to make individual judgment resulting in an audit of lower quality. Hence, big audit firms are expected to result in higher audit quality.

Based on the above discussion it is hypothesized therefore that:

- H1:** Client satisfaction with audit performance of Big 4 firms is higher than that of non-Big 4 firms.
- H2:** Client satisfaction with audit performance is positively associated with audit quality attributes of audit firm.
- H3:** Client satisfaction with audit performance is positively associated with audit quality attributes of audit team.

## RESEARCH METHOD

The study adapts the Behn *et al.* (1997) research instrument to capture audit client perceptions on identified audit quality attributes of their auditors. The instruments are sent to the controllers of selected companies listed on Bursa Malaysia via mail. Each respondent is requested to give his/her response on quality attributes of auditors at both the firm and team levels. Several other studies have attempted to measure audit quality from the perceptions of different groups including external auditors (Mock & Samet 1982; Sutton & Lampe 1991; Sutton 1993), chairmen of audit committees (Schroeder *et al.* 1986), audit partners, audit committee and investment analysts (Nahariah *et al.* 2005). This study chooses financial controllers to evaluate the work of external auditors because they are the most appropriate individuals to give the client service perspective on the performance of the external audit firm (Behn *et al.* 1997). Behn *et al.* (1997) argue that the controller is more likely to have day-to-day interactions with auditors than any other company executive. Thereby, giving the controller has a greater understanding of external auditing.

Separate models are developed for audit client satisfaction of audit team and that of audit firm. The objective is to determine the relationships between audit quality attributes with client satisfactions over the performance of audit team and audit firm respectively. Audit team and audit firm are two separate groups of factors that may influence the quality of external auditors (Schreoder *et al.* 1986). This approach is also in line with Craswell, Francis & Taylor (1995) who argue that audit firm reputation and auditor's industry specialization, i.e. expertise, are two separate dimensions that would influence audit quality. In discussing



audit quality, audit firm reputation and auditors' expertise are treated as two independent variables (Craswell *et al.* 1995). In this study, subjects are requested to specify their perceptions separately on each attribute of audit quality for audit team and those for audit firm in determining audit quality.

The models are presented below:

$$ACS_{af} = \alpha + b_1 \text{PriorExp} + b_2 \text{IndExpt} + b_3 \text{Resp} + b_4 \text{Indp} + b_5 \text{Comm} \quad (1)$$

Where:

$ACS_{af}$  = Audit client satisfaction over audit firms

PriorExp = Prior experience in auditing the company.

IndExpt = Industry expertise for effective audit

Resp = Responsive to the company's needs

Indp = Never engaged in actions that compromise independence

Comm = Commitment to quality

$$ACS_{at} = \alpha + b_1 \text{PriorExp} + b_2 \text{IndExpt} + b_3 \text{TechComp} + b_4 \text{Indp} + b_5 \text{DueCare} + b_6 \text{ExeInv} + b_7 \text{FieldWork} + b_8 \text{InterAC} + b_9 \text{Ethic \& Know} + b_{10} \text{SceptAtt} \quad (2)$$

Where:

$ACS_{at}$  = Audit client satisfaction over audit teams

PriorExp = Prior experience in auditing the company.

IndExpt = Industry expertise to effectively audit the company

TechComp = Technical competence in Approved Accounting Standards and Auditing Standards

Indp = Never engaged in actions that compromise independence

DueCare = Exercised due care throughout the engagement

FieldWork = Conduct of audit field work in an appropriate manner

ExeInv = Executives (partner/manager) actively involved in the engagement.

InterAC = Interact effectively with the audit committee

Ethic & Know = High ethical standards and knowledge of accounting and auditing

SceptAtt = Sceptical attitude throughout the audit engagement

## Other Variables

The authors are aware of other factors that may influence the controllers' satisfaction with auditors' quality of works. These factors include firm size and characteristics of the controllers. The influence of company size is eliminated because this study uses only companies listed in the Main Board of Bursa

Malaysia, which are subjected to listing requirement of maintaining a minimum amount of issued share capital. However, this study is unable to obtain the background information of financial controllers because such information is not disclosed separately in the financial statements from which the data is extracted. Hence, it is acknowledged as a limitation of this study.

## Research Instrument

The research instrument, adapted from Behn *et al.* (1997) which requested controllers of Fortune 1000 companies in the US to evaluate their existing auditors on each identified dimensions of audit quality. In the Behn *et al.* (1997) study, the controllers were also asked to rate their overall level of satisfaction with their auditors' performance. Using the above approach, this study obtains perceptions of the company management represented by the financial controllers. They are required to give their perceptions of the company external auditor on each attribute of audit quality based on questions contained in the research instrument. This study attempts to identify the possible relationships between the company management satisfaction of auditors' works and each audit quality attribute. Although the Behn *et al.* (1997) study is conducted in the US environment which may differ culturally, politically and legally from that of Malaysia, the basic principles underlie the audit quality are similar. In developing the standards for auditing practices in Malaysia, the Malaysian Institute of Accountants (MIA) has adopted the International Standards on Auditing (Devi, Hooper & Davey 2004). Hence, auditors in Malaysia are guided by the same auditing framework as that in other countries although the context within which the audit takes place may differ. Although institutional environments in Malaysia may differ from those in the US, common attributes are expected to characterize audit quality in these countries.

The purpose of the instrument is to solicit perceptions of financial controllers over the quality of audit. The questions categorised into two parts. First part contains a set of fifteen items of audit quality attributes. The second part contains two items to measure the client satisfactions. Respondents are required to evaluate the performance of their external auditors on the stated audit quality attributes by indicating scores along a 5 point Likert scale ranging from 'strongly disagree' to 'strongly agree.' With respect to client satisfaction with audit performance, respondents are required to provide their evaluation on a separate 5 point Likert scale ranging from 'very dissatisfied' to 'very satisfied.'

Some modifications are made to the Behn *et al.* (1997) original questionnaires to ensure that each question relate to either audit team or audit firm only. This is done in order to avoid confounding effects of audit team and audit firm dimensions on client perceptions of audit quality attributes and the level of client satisfactions with auditors' performance.

## RESULTS OF THE ANALYSIS

### Sample

A total of 704 companies listed in Bursa Malaysia Bhd. for the year 2003 are included in the study. Companies in the highly regulated industries including those in the finance, insurance, and trust industry, are excluded from the sample. The finance industry is excluded from this study because of its highly regulated environment (Elloumi & Gueyie 2001). Seven hundred and four questionnaires are distributed to financial controllers of these companies in April 2004. At the initial stage, 200 questionnaires are returned within three months after the distribution. Follow up visits by the researchers to the respective companies are made about one month after the receipts of the first batch of the questionnaires resulting in an additional 56 questionnaires are received. As a result, a total of 256 questionnaires are collected, out of which ten questionnaires are incomplete. The result of a t-test shows no significant response bias between the sample groups. Only 246 questionnaires are finally useable for the study resulting in a response rate of 35%. See Table 1 for details of the sample.

Table 2 presents the distribution of sample across industries. Except for the finance, insurance, and trust industries, all other industries listed on Bursa Malaysia are included in the sample.

**Table 1** Sample Description

Sample	N
Initial sample	704
Responding companies	256
Less: incomplete questionnaires	10
Usable questionnaires	246
(Response rate)	(35%)

**Table 2** Distribution of Sample by Industry

Industry	Frequency	Percentage
Construction	19	7.7
Consumer products	35	14.2
Hotel	5	2.0
Industrial products	79	32.0
Plantation	13	5.3
Properties	31	12.6
Technology	11	4.5
Trading services	53	21.5
<b>Total</b>	<b>246</b>	<b>100.0</b>

## Descriptive Statistics

Table 3 summarizes the mean score of each item included in the instrument. The items are ranked in a descending order of the mean score. Analyses of audit quality attributes by audit team and audit firm as well as by size of audit firm are discussed in the following sections.

## Analysis of Audit Quality Attributes by Audit Team and Audit Firm

The result indicates that clients in Malaysia perceive audit firm generally have higher quality attributes than audit team that actually carry out audit work. Table 3 shows that the average mean score of quality attributes of audit firms is 4.02 ranging between 3.78 and 4.28. The average mean score of audit team quality attributes is 3.75 ranging between 3.37 and 4.13. A t-test of independent samples is done to see whether there is any significant difference between the average mean score of the management perception of quality attributes of audit team and those of audit firm at  $p = .000$ . Results of test of independent samples show that the average mean score of quality attribute of audit firm is significantly higher than that of audit team. This result suggests that the management ranks audit firm higher than audit team in term of audit quality attributes. The finding reflects the carry over image of audit firms, which is critical to the confidence of users and the perception of clients in audit services provided by external auditors.

There appears to be a gap in the management perception of audit quality attributable to audit firm and that attributable to audit team. For example, the client strongly agree that an appropriate amount of experience in auditing the company is an important attribute contributing to good performance of audit firm (mean score = 4.28) than that of audit team (mean score = 3.68). Similarly, industry expertise receives a higher score (4.09) indicating to be a more important audit quality attribute for audit firm than for audit team (3.67). The minimum mean score of 3.37 relates to audit team ethical standards and knowledge about accounting and auditing which is only slightly above average. This indicates that the client management is not strongly in support that ethical standards and knowledge of accounting and auditing would contribute significantly to the quality of audit work of audit teams. The result suggests that the client perception of audit quality is highly related to the quality attributes of audit firms. This is consistent with previous finding suggesting that audit firms develop expertise through industry specialization (e.g. Mohd-Mohid & Takiah 2004; Craswell *et al.* 1995). Auditors would rely on the client perception of audit firm reputation and image to gain acceptance by the profession and business community.

Table 3 also shows that only four out of fifteen attributes which obtain mean scores more than four. These attributes mainly relate to expertise and

**Table 3** Audit Quality Attributes by Audit Team and Audit Firm

Audit Firm Quality Attributes		Mean	SD	Audit Team Quality Attributes		Mean	SD
Q1	– Audit firm experience with client	4.28	.74	Q6	– Audit team competence with Approved Accounting Std and Approved Auditing Std	4.13	.70
Q3	– Audit firm industry expertise	4.09	.78	Q12	– Audit team conduct of audit field work	3.93	.65
Q7	– Audit firm independence	4.03	.67	Q9	– Audit team exercises due care	3.93	.64
Q10	– Audit firm commitment to quality	3.94	.79	Q8	– Audit team independence	3.91	.66
Q5	– Audit firm responsiveness to client's needs	3.78	.81	Q11	– Audit firm executive involvement in the engagement	3.85	.87
Average score for audit firm attributes: (4.28 + 4.09 + 4.03 + 3.94 + 3.78)		4.02*		Q2	– Audit team experience with client	3.68	.82
		5		Q4	– Audit team industry expertise	3.67	.89
				Q13	– Audit team interaction with audit committees	3.64	.85
				Q15	– Audit team sceptical attitude	3.41	.83
				Q14	– Audit team ethical and knowledgeable	3.37	.83
				Average score for audit team attributes: (4.13 + 3.93 + 3.93 + 3.91 + 3.85 + 3.68 + 3.67 + 3.64 + 3.41 + 3.37)		3.75*	
						10	

Note: \* t-test of independent samples shows a significant difference at  $p = .000$

independence of audit firms,. The remaining eleven attributes obtain mean scores less than four. These attributes mostly relate to audit teams. If a score of four represents an average satisfactory level, results suggest that the financial controllers' perception of the various audit quality attributes of their auditors at the audit team level is below average. The results imply that companies give higher rating on the image and reputation of audit firms but lower rating on the audit team capabilities. Their perceptions on the image of Big 4 firms may be influenced by the firms' established international reputations and brand name. It appears that audit practitioners gain advantage from the firm reputation. Audit team/personal is perceived to be providing less satisfactory audit service. Results suggest that audit firms have the responsibility to further improve their performance at the team level by providing more training to audit staff and closer supervision to audit teams in order to enhance the quality of audit profession in Malaysia.

The development of expertise among the man-power is an important determinant of audit quality (DeAngelo 1981; DeFond 1992). This is because audit-team factors are perceived by audit committee chairpersons to have a greater effect on audit quality than audit-firm factors (Schroeder *et al.* 1986). The result suggests that big audit firms must not only rely on the firm reputation but must improve the competence of audit team. This is an important attribute in forming the expertise of auditors (Bonner & Lewis 1990; Libby & Luft 1993). Audit firms must not only depend on the international reputation of the firm but must develop their own strategy to maintain high quality audit service and to remain competitive in the global market. This result raises concerns to the profession over the quality of audit firm professional training and development program for audit staffs.

### **Analysis of Audit Quality Attributes by Audit Firm Size**

Further analysis is performed to see whether clients' perception on the influence of audit quality attributes on audit quality is different between Big 4 and non-Big 4. Results of the analysis are summarized in Table 4 below. Overall, results show that, the perception of the client management over the various audit quality attributes contributing to audit quality does not differ significantly between the Big 4 and non-Big 4 except for audit firm responsiveness to client needs and audit team independence. Results also show that audit firm responsiveness to client needs is perceived more important for the non-Big 4 than for the Big 4. Results show that audit team independence is perceived significantly higher for the Big 4 than for the non-Big 4. Results suggest that for clients of the non-Big 4, audit firm responsiveness to the client needs more important in determining the quality of audit as compared to that of the Big 4. Results indicate the high expectation for auditors to be responsive to client needs pose a greater challenge

## The Relationship Between Audit Client Satisfaction and Audit Quality Attributes

**Table 4** Ranking of Audit Quality Attributes by Big 4 and non-Big 4

Rank	Audit Quality Attributes		Mean (Big 4)	Mean (Non-Big 4)	t-test p
Audit Firm					
1	Q1	– Audit firm experience with client	4.36	4.08	.316
2	Q3	– Audit firm industry expertise	4.14	3.97	.185
3	Q7	– Audit firm independence	4.06	3.94	.380
4	Q10	– Audit firm commitment to quality	4.00	3.77	.112
5	Q5	– Audit firm responsiveness to client needs*	3.76	3.86	.040
Audit Team					
1	Q6	– Audit team competence with Approved Accounting Std and Approved Auditing Std	4.16	4.08	.405
2	Q12	– Audit team member conduct to audit field work	3.96	3.86	.894
3	Q9	– Audit team exercises due care	3.97	3.79	.181
4	Q8	– Audit team independence*	3.98	3.73	.023
5	Q11	– Audit firm executive involvement in the engagement	3.88	3.78	.839
6	Q2	– Audit team experience	3.69	3.67	.390
7	Q4	– Audit team industry expertise	3.65	3.73	.265
8	Q13	– Audit team interaction with audit committee	3.73	3.43	.288
9	Q15	– Audit team maintain personnel sceptical attitude	3.49	3.18	.117
10	Q14	– Audit team ethical and knowledgeable in accounting and auditing	3.41	3.27	.102

Note: \*Significant difference between Big 5 and non-Big 5 at  $p < .05$ .

to the non-Big 4 than to the Big 4. This finding is consistent with the client perception that audit team independence is significantly more important for the Big 4 than the non-Big 4 in maintaining audit quality. See Table 3.

### Client Satisfaction of Audit Performance

Questions 16 and 17 solicit clients' satisfactions of the overall performance of audit firms and audit teams respectively. Table 5 summarizes the result. The table indicates that the client satisfaction with the overall performance of audit firm is

**Table 5** Ranking of Client Satisfaction of Audit Performance

Satisfaction Measures		Overall	p
Q16	Client satisfaction with the overall performance of audit firm	3.73	.273
Q17	Client satisfaction with the overall performance of audit team	3.64	



higher than the satisfaction with the overall performance of audit team. However, results of t-test of independent samples show no significant difference in the level of satisfaction at  $p = .05$ . This result suggests that the client satisfaction with audit performance is the same at both the audit team and audit firm levels.

## Hypothesis Testing

### *Comparisons between Audit Client Satisfaction of Big 4 and non-Big 4*

Comparisons are made between client satisfaction over the performance of audit of the Big 4 and that of the non-Big 4. Results of the independent sample test are summarized in Table 6. Results show no significant difference at  $p = .05$  between the client satisfaction with the overall performance of audit services provided by the Big 4 and that by the non-Big 4 at audit team and audit firm levels. This finding suggests that audit clients expressed the same level of satisfaction with the performance of audit by the Big 4 and the non-Big 4. Hence, H1 is not supported. The result provides further support to the argument that, on the basis of client satisfaction, when litigation risks are absent or very little no significant difference in the quality of audit exists between the Big 4 and non-Big 4 (Khurana & Raman 2004a).

Similar t-tests of independent samples are performed on client satisfaction over the overall performance of audit team members of the Big 4 and those of the non-Big 4. Results in Table 6 show no significant difference at  $p = .05$  of the client satisfaction with the overall performance between Big 4 and non-Big 4 audit team members. H2 is also not supported. Results suggest that audit clients do not make any distinction in audit services performed by either audit team members of the Big 4 and non-Big 4. The result further supports Khurana and Raman (2004) who argue that audit clients do not differentiate audit performance of the Big 4 and non-Big 4 at both the firm and audit team levels.

**Table 6** Comparison between the Audit Client Satisfaction of Big 4 and non-Big 4

Types of Satisfaction	N	Mean	Std Dev	p
Q16. Overall audit performance of audit firms				
Big 4	182	3.725	.714	.438
Non-Big 4	64	3.734	.672	
Q17. Overall performance of audit team members				
Big 4	182	3.659	.709	.925
Non-Big 4	64	3.594	.684	

### *Test of Data*

In order to perform parametric statistics, tests of normality and multi-collinierity are performed separately on data sets for quality attributes of both audit firm and audit team. A test of normality is carried out to see whether data is normally distributed (Coakes & Steed 2001). The result shows that there is no problem of normality of both sets of data. A test of multi-collinierity is performed using correlation between variables. Results show that the coefficients of correlation between independent variables ranges between .174 and .661. This indicates that there is no multi-collinierity problem with the data. Multi-collinierity problems exist only if the value of correlation exceed .80 (Cooper & Schindler 2001) or .90 (Tabachnick & Fidell 2001).

### *Associations between Audit Client Satisfaction and Quality Attributes of Audit Firm*

A statistical regression is performed to evaluate the relationship between the client satisfaction with the overall audit performance of audit firm and audit quality attributes relating to audit firm. Results of the regression analysis are summarized in Table 7. The table shows that the quality attributes explain about 41.0% of client satisfactions with the audit firm performance. Results show that the client satisfaction of audit firm performance is significantly and positively related to four audit quality attributes. These attributes are audit firm prior experience in auditing the client (at  $p = .000$ ), audit firm responsiveness to the client needs (at  $p = .000$ ), audit firm independence (at  $p = .090$ ), and audit firm commitment to quality (at  $p = .002$ ). Results show that client satisfaction over audit firm performance increases when the audit firm has longer prior experience with the client, is more responsive to the needs of the client, demonstrates higher level of independence, and shows more commitment to quality respectively.

**Table 7** Relationships between Audit Client Satisfaction and Quality Attributes of Audit Firm

Questions	Attributes	Unstd Coeff	t	Sig.
	(Constant)	.613	2.300	.022
Q1	Audit firm prior experience with the client*	.226	4.079	.000
Q3	Audit firm industry expertise	.072	1.285	.200
Q5	Audit firm responsiveness to client needs*	.225	4.381	.000
Q7	Audit firm independence <sup>#</sup>	.099	1.701	.090
Q10	Audit firm commitment to quality	.155	3.121	.002

Notes: \*Significance level at  $p = .05$ ; <sup>#</sup>Significance level at  $p = .10$ ; Dependent Variable: Q16 Client satisfaction to audit firm; and R Square: 41.0%

Findings indicate that in evaluating the performance of audit firms, the main concern of audit clients is whether they can work well with the auditor in satisfying their needs and meeting the target to complete and issue financial statements on a timely basis. Audit clients are more concerned with a timely completion of the audit. Audit client tend to favour auditors who have adequate prior experience in the audit of the company and have maintained good relationship with the client. Clients' satisfactions over the audit firm performance is judged based on the past audit experience and relationships with them although the firm lacks the appropriate expertise to audit the client effectively. The client may believe that audit firm prior audit experience with them is sufficient to understand the client's business environment and to deliver good audit services. Hence, an appropriate amount of prior experience that audit firms have in auditing the company is expected to reduce the amount of time required in understanding the business operation of the company and in identifying specific problems and needs within the context of the clients' business. The significant relationship between client satisfactions with audit firm performance and audit firm responsiveness to client needs suggests that the management is more concerned of getting the audit work done regardless whether audit firm and its representatives are acting in a manner that may compromise the firm independence, either in fact or in appearance. However, audit firm independence is recognised as an important audit quality attribute as reflected in its significant positive relationship with client satisfaction with the performance of audit firm. Certainly client inclination for auditors' association with the client in the past and auditors' responsiveness to their needs pose challenges to auditors to remain independent. Nonetheless, the client emphasis on the audit firm commitment to quality reflects an important characteristic in gaining users' confidence in the company financial reporting.

Although results show significant relationships between the client satisfactions with the performance of audit firms on a number of quality attributes namely the firm prior experience with the client, responsiveness to client needs, independence, and commitment to quality there is no significant relationship found between the client satisfactions and audit firm industry expertise. This result suggests that audit clients are indifferent on whether or not the firm has the necessary expertise of the industry in which the client operates.

### *Associations between Audit Client Satisfaction and Quality Attributes of Audit Team*

A similar statistical regression is also performed to test the relationship between audit quality attributes of audit team and the client satisfaction with the overall audit performance of audit team members. The selected attributes explain 52.1% of client satisfaction over the work performance of audit team. Results of the

analysis are summarized in Table 8. Results show that the client satisfaction with the overall performance of audit team members has significant positive relationship with the amount of prior experience of the team with the company ( $p = .003$ ), independence of audit team ( $p = .031$ ), involvement of audit firm executive, i.e. partner or manager, in the audit engagement ( $p = .026$ ), the conducts of audit field work ( $p = .019$ ), and the team ethical standards and the knowledge of accounting and auditing ( $p = .000$ ) respectively.

These relationships indicate that level of audit client satisfaction with the work of audit team increases when the team has longer prior experience with the client, demonstrates higher level of independence, involves more executives in the engagement, carry out proper conduct of audit field work, and adopt higher ethical standards and possesses good knowledge of accounting and auditing. Although results show that the client is not particularly concerned with the audit team industry expertise and competency with approved accounting and auditing standards, they give emphasis on audit team members conducting the audit field work in an appropriate manner and the team members subscribe to high ethical standards and are very knowledgeable about accounting and auditing.

The significant positive relationship between the client satisfactions with the audit team performance and the amount of prior audit experience of the team with the company shows that the client management is happy with auditors who have been with the same client for a long time. The longer the auditors have served the client the better is their understanding on the clients' system and business environments. Hence, these auditors are able to provide more efficient audit services. Results show that audit client gives emphasis on independence,

**Table 8** Relationships between Audit Client Satisfaction and Quality Attributes of Audit Team

Questions	Attributes	Unstd Coeff	t	Sig.
	(Constant)	.291	1.106	.270
Q2	Audit team experience with client*	.154	3.029	.003
Q4	Audit team industry expertise	-.028	-.561	.575
Q6	Audit team competence with Approved Accounting Std and Approved Auditing Std.	-.030	-.505	.614
Q8	Audit team independence <sup>#</sup>	.162	2.170	.031
Q9	Audit team exercises due care*	.064	1.067	.287
Q11	Audit firm executive involvement in the engagement	.158	2.240	.026
Q12	Audit team conduct of audit field work*	.109	2.367	.019
Q13	Audit team interactions with audit committee*	.100	1.510	.132
Q14	Audit team ethical and knowledgeable*	.216	3.624	.000
Q15	Audit team maintain sceptical attitude	-.005	-.119	.905

Notes: \* significance level at  $p = .05$ ; <sup>#</sup> significance level at  $p = .10$ ; dependent variable: Q17 Client satisfactions to audit team; R Square: 52.1%

proper conduct of audit work, and ethical values and competency as audit quality attributes which determine their satisfaction with the performance of audit team. However, the equal emphasis given on the importance of prior experience with auditor, auditors' responsiveness to clients needs, and executive involvement in the audit engagement reflects their preferred relationship that favour the interest of the client. The submission to these attributes would pose challenge to auditors' independence, hence, affect the audit quality.

The study finds that the team ability to remain independent when dealing with the client, either independence in fact or in appearance, is perceived to be significantly related to client satisfaction with auditors' services ( $p = .031$ ). However, the study finds that audit team ability to maintain sceptical attitude is perceived to be insignificant at  $p = .05$  in determining the client satisfaction over the audit team performance. These results show that clients wish to see audit teams acting independently but they do not wish to see auditors to be sceptical or inquisitive about them.

## CONCLUSIONS, IMPLICATIONS AND LIMITATIONS

The study provides further evidence on the client's satisfaction on the performance of auditors of listed companies in Malaysia. The study uses a set of questionnaires comprising two parts adapted from Behn *et al.* (1997). One part is used to solicit clients' satisfaction with the services of their auditors at the audit firm and audit team levels. The other part is used for subjects to provide their evaluation on various quality attributes relating to the performance of audit firms and audit teams. A comparison is made between Big 4 and non-Big 4 on clients' overall satisfactions of the works audit firm and audit team. Regression of client satisfaction with audit work and their evaluation of audit quality attributes are done separately for audit team and audit firm. The objective is to obtain an insight into clients' perception of audit quality attributes that relate to audit firm and audit team which contribute to their satisfactions. Audit firm and audit team are dealt with separately because they constitute two different dimensions of audit quality.

This study finds no significant difference in the client satisfaction with audit services between Big 4 and non-Big 4 audit firms. The finding suggests that audit clients perceive Big 4 and non-Big 4 audit firms are able to provide audit services that equally satisfy the clients. Differences in service satisfactions between clients of Big 4 and non-Big 4 firms over audit services are absent in Malaysia where audit risks resulting from litigious environments are almost non-existence. This finding is consistent with Khurana and Raman (2004) who allege that differences in audit quality by size of audit firms exist only in litigious environments. When there is no risk or very little risks of litigation against auditors exist, Big 4 firms are not motivated to enhance their audit quality.

Results imply that Big 4 firms continue to gain respect among audit clients as a result of the firm's established reputation (Craswell *et al.* 1995). The result implies that the preference for Big 4 audit services may be driven by audit firm reputation rather than their perceived quality of work of audit team. This implication may be interpreted as the clients not being concerned with the audit-team factor although this factor is significant and may impact audit quality (Schroeder *et al.* 1986). Further research is necessary to examine the extent audit quality has been affected by the sub-standard quality of audit team in performing the audit in this country.

The client's evaluation of audit performance on a 5-point Likert scales ranging from strongly disagree to strongly agree on each attribute of audit quality is analyzed to provide an indirect way of understanding the client perception of what constitutes audit quality. Based on the client response on audit quality attributes, results show that the quality attributes of audit firm is rated significantly higher than that of audit team. This finding suggests that auditors gain good evaluation from clients as a result of the firm reputation rather than the recognition of the work of audit team. The finding implies that the audit-team factor, which is an important component of audit quality (Schroeder *et al.* 1986), does not receive much consideration from the clients when assessing external audit services. When considering the selection of external auditors, clients give more emphasis on audit-firm factor, which is the reputation established among audit firms. This result supports the previous finding which suggests that Big 4 audit firms in the ASEAN are not associated with audit quality measured in terms of more conservative reported earnings (Khurana & Raman 2004a). Similar situation also exists in Anglo American countries (Khurana & Raman 2004b). Similarly in Malaysia, very little evidence exists of law suits involving external auditors. In Malaysia the auditing profession is highly regulated. For example, audit fees charged to clients are determined based on formula prescribed by MIA, which is based on total revenue, total assets or total expenses. Consequently, auditors are less motivated to apply their expertise, ie to improve audit quality, in order to gain higher audit fees (Mohd-Mohid & Takiah 2004).

When a litigation risk is non-existence, auditors are not motivated to improve the effectiveness of audit. Hence, there is no incentive for the Big 4 to provide better quality audit, consequently there is no difference in the quality of audit between the Big 4 and non-Big 4. This finding is consistent with Khurana and Raman (2004) who find that, in the absence of litigation risk, there is no difference in the quality of audit work between big audit firm and non-big audit firms. As a result, it is inappropriate for audit firm size to be used as a proxy of audit quality particularly for research conducted in a litigation risk free location, such as Malaysia. This finding is consistent with Mohd-Mohid and Takiah (2004) who find that, in Malaysia, there is no difference in the level of expertise between Big 4 and non-Big 4 audit firms. Thus, no audit premium is

given for industry specialisation. There is a need for further research to address this issue.

The examination of the relationships between the client satisfaction with the performance of audit team and with that of audit firm respectively and audit quality attributes highlights some quality attributes that are significantly related to client satisfaction. The study wishes to establish factors that may have influenced client satisfaction with audit services offered by Big 4 and non-Big 4 firms to companies listed in Bursa Malaysia. In term of audit firm quality attributes, audit firm prior experience in auditing the client, responsiveness to the client needs, firm independence, and commitment of audit firm to quality have been identified as significant. In terms of audit team quality attributes, the study shows that client satisfaction is significantly related to audit team experience with the client, team independence, executive involvement in the engagement, the team conduct of field works, and the team ethical standards and knowledge of accounting and auditing.

Audit team independence is evaluated as significantly related to the quality of both audit team and audit firm. This perception may occur because auditor independence is directly indicative of audit quality and observable by clients when dealing with the team or individual member of the team. However, it may be argued that size and reputation of audit firm may not necessarily be seen as a safeguard on auditors' independence (Hashanah, Takiah & Razman 2001). The recent consequential dissolution of Arthur Anderson in Enron case provides an example of a senior audit partner of a big audit firm has not acted independently and ethically in dealing with disclosures of financial statements which may have influenced the client perception of auditors' independence. Hence, it is critical for individuals involved in the audit to be independent in order to maintain high quality audit (DeAngelo 1981). On the other hand, audit firms enjoy the competitive advantage from the firm reputation, which reflects the firm independence.

The insignificant relationship between audit team members maintaining sceptical attitude throughout the audit engagement and client satisfaction contradicts with auditing standards which emphasise on the importance of this attribute in ensuring high quality audit. It implies that audit team does not have to maintain sceptical attitude in order to satisfy client with audit work. Notwithstanding that auditors may not be sceptical over the clients audit clients expect auditors to always exercise due care through the engagement and to conduct the audit in an appropriate manner. The significant relationship between client satisfaction and audit team as a group had an appropriate amount of prior experience in auditing the client suggests that clients give more emphasis on auditors' familiarity with the company business operation and information system, hence, to complete the audit on a timely basis. This particularly so when audit firm executives are involved actively in the engagement. The insignificant



relationship between client satisfaction and the audit team necessary industry expertise to effectively audit the company means that audit clients focus more on the completion of audit work in order to meet the statutory requirement rather than the quality of the audit work. This finding is not in line with audit committee and investment analyst views that knowledge in accounting and auditing standards as well as knowledge of industry are significant factors that influence audit quality (Nahariah *et al.* 2005). The appropriate amount of auditors' experience with the company is preferred because of less initial start-up cost of an audit although it may impact auditors' effectiveness of carrying out the audit work. This finding suggests that clients put more importance on auditor efficiency than effectiveness. This contradicts with the requirements of auditing standards, which emphasise on both efficiency and effectiveness.

The study has some limitations. Firstly, it is conducted on only listed companies, hence, limits the generalizations of results to other types of company. Secondly, it uses client satisfactions with the performance of audit firms and audit team members to indicate the quality of audit. This method may not provide a very accurate measure of audit quality since it may be biased by client other personal interests. Further research may be necessary to address this issue. Although, this study uses client satisfaction to reflect audit quality, the relationship between the level of satisfaction and audit quality attributes is able to identify clients' preference affecting their perceptions. However, due to unavailability of information in the financial statements, the study is unable to include in the model the characteristics of subjects which may be expected to have an influence on their perception of auditors. Hence, further research in necessary to address this issue.

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